The Energy And Technology Committee

February 28, 2006

House Bill 5525: AAC ELECTRIC CONSERVATION

Testimony of

The Office of Consumer Counsel

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OCC supports the development of energy conservation & renewable programs for Connecticut's utility ratepayers and appreciates the Energy and Technology Committee's efforts to further their deployment to assure a strong energy future for Connecticut.

However, the OCC must express its concern over the bill's proposal to require the Department of Public Utility Control (DPUC) to complete a further proceeding to investigate the relationship between sales and earnings on or before December 31, 2006. The proceeding is proposed to include the adoption "a hold harmless clause" for the electric distribution companies as to any lost earnings resulting from the implementation of conservation and load management programs. These type of mechanisms are viewed as anti-ratepayer because they provide no economic benefit for ratepayers and serve as a means to guarantee a utility's profit level which has never been allowed by Connecticut's utility authority.

OCC notes that the DPUC recently investigated the relationship between conservation and load management programs and company earnings pursuant to Public Act No. 05-01, An Act Concerning Energy Independence. The report highlights the mechanisms that are currently utilized by the DPUC to decouple earnings from sales and to ensure that energy distribution companies are held harmless from reduced sales levels caused by company sponsored conservation initiatives, and finds that these current mechanisms are sufficient and appropriate. It is OCC's understanding that the electric distribution companies are in agreement with the findings contained in the DPUC report. For the Legislature to specifically require adoption of a "held harmless clause" would be an unprecedented departure reducing current regulatory oversight and ratepayer protections.

OCC also suggests modification to lines 25-47 of the proposed bill. While OCC does not oppose the principle of allowing electric distribution companies to own renewable energy sources, OCC believes that the payment of revenue requirements for such facilities should be based on

traditional regulatory principles, including cost of service rates, rate of return regulation, and DPUC jurisdiction.

The OCC would very much want to participate in all activities related to this bill and believes it can bring detailed expertise that will serve to make this bill a force for positive change.

Attachment to OCC Testimony on HB 5525

Different Types of Sales Adjustment Clauses

- The conservation adjustment mechanism (CAM) is a measured, balanced decoupling measure. It makes the distribution company whole for the costs of company sponsored conservation programs, incentives for successful program implementation and associated lost margins directly related to these company programs. The CAM device is time-tested and well-understood, and it already provides sufficient safeguards for the utility participating in conservation programs.

- The purchased gas adjustment (PGA) clause also works fairly well. The PGA makes gas companies whole for a strictly defined set of costs known to be beyond their control. The DPUC administers the PGA in fully transparent proceedings.

- The weather normalization clause (WNA) is an adjustment mechanism somewhat broader than a CAM or PGA. It provides for less regulatory oversight, and has been an expensive proposition for ratepayers. For instance, since 1994, the WNA that Southern Connecticut Gas enjoys has increased ratepayer bills by a net $27.5 Million. Specifically, the bills went up by $34.2 Million in 9 years, and down by a mere $6.7 Million in the other 3 years.

- Sales adjustment clauses would operate even more broadly than the WNA, allowing recovery of reduced sales volumes for reasons not associated with utility sponsored conservation programs. If sales adjustment clauses are adopted for the state's electric distribution companies, the potential economic burden on Connecticut's residents and businesses of an automatic sales adjustment clause is even greater than a WNA, costing ratepayers millions of dollars annually. The "hold harmless" approach that HB 5525 contemplates would guarantee utility profit levels, whatever the reason those profits may have lagged. This has never been Connecticut law, and it is not a good idea today.